

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT)	
FILING OF ELAM UTILITY)	CASE NO. 2006-00302
COMPANY)	

ORDER

On October 24, 2003, in Case No. 2003-00171, the Commission approved rates for Elam Utility Company ("Elam") and provided for their further adjustment on a quarterly basis in accordance with Elam's gas cost adjustment ("GCA") clause.¹

On June 15, 2006, Elam filed its proposed GCA to be effective July 1, 2006. On June 27, 2006, the Commission suspended Elam's revised tariff for 5 months up to and including November 30, 2006. On September 18, 2006, Columbia Gas Transmission ("Columbia") supplied information on its settlement agreement with Elam. On October 17, 2006, Elam supplied a copy of its contract with North American Energy Corporation ("North American"). Since a substantial amount of the information in Elam's original filing has been updated, Commission Staff ("Staff") has recalculated Elam's entire GCA filing which is attached as Appendix B.

On June 1, 2006, Columbia notified the Commission of its discovery that as of April 2006 Elam had an imbalance on its system totaling 44,359 Dth. Columbia and Elam reached a settlement which was subsequently provided to the Commission. The settlement requires Elam to replace 46,899 Dth of natural gas into Columbia's pipeline

¹ Case No. 2003-00171, A Review of the Rates of Elam Utility Company, Inc. Pursuant to the Decision to Approve the Financing Requested in Case No. 2001-00324.

system at a rate of 5,000 Dth per month until the imbalance is repaid.² Under its contract with Elam, North American agrees to supply the settlement monthly volume in addition to the natural gas Elam will need to service its own system.

The above referenced imbalance situation with Columbia began in 2005 when Cumberland Valley Resources ("Cumberland Valley"), one of Elam's two suppliers, discontinued purchasing gas for the main portion of Elam's system while Elam continued to take gas from the Columbia system. After Cumberland Valley discontinued service, Elam continued to bill its customers under its authorized tariff even though it was not being invoiced for any of the gas it took from the Columbia system.

At an informal conference, Elam stated that it recognized that it was liable for the gas taken from the Columbia system and that payment would eventually be required. Elam established a Money Market Plus ("Money Market") account to deposit funds that would be used to pay for its negative imbalance with Columbia. On May 31, 2006, there was a balance of \$200,389.48 in the Money Market account according to Elam's general ledger.

The general ledger as of September 30, 2006, however, indicates that Elam has systematically transferred funds from the Money Market account. The September 2006 general ledger shows there have been four transfers of \$10,000 or more totaling \$45,000 to Elam's general checking account since July 20, 2006, presumably to pay expenses other than the purchase of natural gas. The Commission takes note of this situation and orders Elam to use the Money Market account solely for the payment of its natural gas purchases and not to pay other operating expenses.

² The settlement agreement includes additional volumes withdrawn since April 2006.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Elam's notice includes revised rates designed to pass on to its customers its expected change in wholesale gas costs.

2. Elam's recalculated Expected Gas Cost ("EGC") is \$10.1251 per Mcf, which is \$1.4347 per Mcf more than the previously approved EGC of \$8.6904.

3. Elam's notice sets out no current refund adjustment ("RA").

4. Elam's recalculated current quarter actual adjustment ("AA") is \$1.5078 per Mcf. Elam's total AA is \$1.5078 per Mcf, which is an increase of \$1.4035 per Mcf from the previous total AA.

5. Staff did not calculate a current quarter balance adjustment ("BA"), due to the difficulty of the calculation on a period that has not yet ended. Staff will calculate Elam's new current quarter BA in its next quarterly GCA. All of Elam's previous BA's have expired, therefore, Elam has no total BA, which is an increase of 62.5 cents per Mcf from the previous total BA.

6. Elam's revised GCA is \$11.6329 per Mcf, which is \$3.4632 per Mcf more than the previous GCA of \$8.1697.

7. The rates in the Appendix to this Order are fair, just and reasonable, and should be approved for billing for service rendered by Elam on and after December 1, 2006.

8. Elam established a Money Market account to deposit funds that would have been used to pay for the imbalance it incurred with Columbia. Elam has, however, used this amount for other purposes.

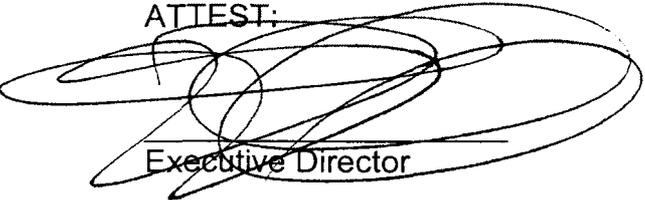
IT IS THEREFORE ORDERED that:

1. Elam's proposed rates are denied.
2. The rates in the Appendix to this Order are approved for billing for service rendered on and after December 1, 2006.
3. Within 20 days of the date of this Order, Elam shall file with this Commission its revised tariff sheets setting out the rates authorized herein.
4. Elam shall use the funds in the Money Market account solely for the purpose of paying for its natural gas.
5. Within 10 days of the date of this Order, Elam shall provide notice to the Commission certifying the current amount of the Money Market account.
6. Each time Elam transfers funds from the Money Market account, Elam shall notify the Commission within 10 days of the amount of the transfer, the purpose of the transfer, and the payee.

Done at Frankfort, Kentucky, this 28th day of November, 2006.

By the Commission

ATTEST:


Executive Director

Case No. 2006-00302

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00302 DATED November 28, 2006.

The following rates and charges are prescribed for the customers served by Elam Utility Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES:

Residential

	<u>Base Rate</u>	<u>Gas Cost Adjustment</u>	<u>Total</u>
Customer Charge All Mcf	\$4.2999	\$11.6329	\$6.15 \$15.9328

Industrial

Customer Charge All Mcf	\$3.8101	\$11.6329	\$9.00 \$15.4430
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00302 DATED November 28, 2006.

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

<u>Component</u>	<u>Unit</u>	<u>Amount</u>
Expected Gas Cost (EGA)	\$/Mcf	\$10.1251
Refund Adjustment (RA)	\$/Mcf	\$0.0000
Actual Adjustment (AA)	\$/Mcf	\$1.5078
Balance Adjustment (BA)	\$/Mcf	\$0.0000
Gas Cost Recovery Rate (GCR)	\$/Mcf	\$11.6329

to be effective for service rendered from December 1, 2006 to March 1, 2007.

<u>A. EXPECTED GAS COST CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Total Expected Gas Cost (Sch II)	\$/Mcf	\$471,030.61
/Sales for the 12 months ended May 31, 2006	\$/Mcf	46,521.00
Expected Gas Cost	\$/Mcf	\$10.1251

<u>B. REFUND ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Supplier Refund Adjustment for Reporting Period (Sch III)	\$/Mcf	\$0.0000
+Previous Quarter Supplier Refund Adjustment	\$/Mcf	\$0.0000
+Second Previous Quarter Supplier Refund Adjustment	\$/Mcf	\$0.0000
+Third Previous Quarter Supplier Refund Adjustment	\$/Mcf	\$0.0000
=Refund Adjustment (RA)	\$ Mcf	\$0.0000

<u>C. ACTUAL ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Actual Adjustment for the Reporting Period (Sch IV)	\$/Mcf	\$1.5078
+Previous Quarter Reported Actual Adjustment	\$/Mcf	\$0.0000
+Second Previous Quarter Reported Actual Adjustment	\$/Mcf	\$0.0000
+Third Previous Quarter Reported Actual Adjustment	\$/Mcf	\$0.0000
=Actual Adjustment (AA)	\$ Mcf	\$1.5078

<u>D. BALANCE ADJUSTMENT CALCULATION</u>	<u>Unit</u>	<u>Amount</u>
Balance Adjustment for the Reporting Period (Sch V)	\$/Mcf	\$0.0000
+Previous Quarter Reported Balance Adjustment	\$/Mcf	\$0.0000
+Second Previous Quarter Reported Balance Adjustment	\$/Mcf	\$0.0000
+Third Previous Quarter Reported Balance Adjustment	\$/Mcf	\$0.0000
=Balance Adjustment (BA)	\$ Mcf	\$0.0000

SCHEDULE II
EXPECTED GAS COST

Actual Mcf Purchases for 12 months ended May 31, 2006

(1) Supplier	(2) Dth	(3) Btu Conversion Factor	(4) Mcf	(5) Rate	(6) (4) x (5) Cost
Jefferson Gas Transmission	2,517	1	2,517.00	\$7.5300	\$18,953.01
North American Energy	43,469	1.07	40,625.00	\$10.4000	\$452,077.60

Totals			43,142		\$471,030.61
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Line loss for 12 months ended 5/31/06 is based on purchases of 43,142.00
and sales of 46,521.00 Mcf. -7.83%

	Unit	Amount
Total Expected Cost of Purchases (6)		\$471,030.61
/ Mcf Purchases (4)		43,142
= Average Expected Cost Per Mcf Purchased		\$10.9181
x Allowable Mcf Purchases (must not exceed Mcf sales / .95)		43,142.00
= Total Expected Gas Cost (to Schedule IA)		\$471,030.61

SCHEDULE IV
ACTUAL ADJUSTMENT

For the 12 month period ended May 31, 2006.

Particulars	Unit	June '05 Month 1	July '05 Month 2	Aug. '05 Month 3	Sept. '05 Month 4	Oct. '05 Month 5	Nov. '05 Month 6	Dec. '05 Month 7	Jan. '06 Month 8	Feb. '06 Month 9	Mar. '06 Month 10	Apr. '06 Month 11	May '06 Month 12	Total
Total Supply Volumes Purchased	Mcf	787	773	761	770	2,114.0	4,735.0	9,314.0	6,649.0	7,772.0	5,853.0	2,012.0	1,602.0	43,142.0
Total Cost of Volumes Purchased	\$	\$8,902.69	\$8,653.62	\$8,608.64	\$8,615.10	\$23,916.57	\$53,631.47	\$102,544.80	\$73,875.52	\$85,517.64	\$64,862.20	\$22,412.92	\$17,886.47	\$479,427.64
/ Total Sales *	Mcf	1,323.0	972.0	1,057.0	1,137.0	2,008.3	4,498.3	9,975.0	6,429.0	8,079.0	7,093.0	2,472.0	2,001.0	
= Unit Cost of Gas	\$/Mcf	\$6,7292	\$8,9029	\$8,1444	\$7,5770	\$11,9089	\$11,9227	\$10,2802	\$11,4910	\$10,5852	\$9,1445	\$9,0667	\$8,9388	
- EGC in Effect for Month	\$/Mcf	\$8,1507	\$8,1507	\$8,6904	\$8,6904	\$8,6904	\$8,6904	\$8,6904	\$8,6904	\$8,6904	\$8,6904	\$8,6904	\$8,6904	
= Difference	\$/Mcf	(\$1,4215)	\$0,7522	(\$0,5460)	(\$1,1134)	\$3,2185	\$3,2323	\$1,5898	\$2,8006	\$1,8948	\$0,4541	\$0,3763	\$0,2484	
x Actual Sales during Month	Mcf	1,323.0	972.0	1,057.0	1,137.0	1,493.0	4,490.0	9,975.0	6,429.0	8,079.0	7,093.0	2,472.0	2,001.0	46,521.0
= Monthly Cost Difference	\$	(\$1,880.69)	\$731.14	(\$577.11)	(\$1,265.88)	\$4,805.17	\$14,513.21	\$15,858.06	\$18,004.94	\$15,307.90	\$3,221.19	\$830.25	\$496.98	\$70,145.15

Total Cost Difference \$ \$70,145.15
 / Sales for 12 months ended 5/31/06 46,521.0
 = Actual Adjustment for the Reporting Period (to Sch IC) \$1,5078

* May not be less than 95% of supply volume

Period	Dth	Rate	Subtotal	Jefferson	Total Cost
June 2005	843	\$10.40	\$8,767.20	\$135.49	\$8,902.69
July 2005	821	\$10.40	\$8,538.40	\$115.22	\$8,653.62
Aug. 2005	814	\$10.40	\$8,465.60	\$143.04	\$8,608.64
Sept. 2005	815	\$10.40	\$8,476.00	\$139.10	\$8,615.10
Oct. 2005	2225	\$10.40	\$23,140.00	\$776.57	\$23,916.57
Nov. 2005	4748	\$10.40	\$49,379.20	\$4,252.27	\$53,631.47
Dec. 2005	9096	\$10.40	\$94,598.40	\$7,946.40	\$102,544.80
Jan. 2006	6673	\$10.40	\$69,399.20	\$4,476.32	\$73,875.52
Feb. 2006	7757	\$10.40	\$80,672.80	\$4,844.84	\$85,517.64
Mar. 2006	5962	\$10.40	\$62,004.80	\$2,857.40	\$64,862.20
Apr. 2006	2069	\$10.40	\$21,517.60	\$895.32	\$22,412.92
May 2006	1646	\$10.40	\$17,118.40	\$768.07	\$17,886.47
Total	43469		\$452,077.60	\$27,350.04	\$479,427.64

Source: Detail on Schedule II filed June 15, 2006